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AN EMPIRICAL STUDY OF CREATING SHARED VALUE AND REVENUE GROWTH IN THE BANKING INDUSTRY

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ABSTRACT

The aim of this research is to verify empirically the relationship between creating shared value (CSV) and revenue growth in the banking industry. CSV is a corporate strategy that aims to achieve sustainable growth on a long-term basis by coexisting with society rather than merely maximizing short-term profits. According to previous studies, conventional philanthropic or environmental activities are often not correlated with improvements in financial results. Various activities are included in conventional philanthropic measures. The CSV strategy in this research is distinguished from conventional philanthropic activities, such as those aimed at hedging risk. In terms of research methodology, statistical verification was carried out based on sustainability statements, the various publicity materials and the financial data released by each bank. The study shows that when banking corporations adopt an optimal approach to CSV activities, corporate and social values expand cyclically.

KEYWORDS: Creating Shared Value, Sustainability, Banking Industry, Empirical Research

INTRODUCTION

The aim of this research is to verify empirically whether or not the strategy with which a company aims to sustain its growth increases its financial results on a long-term basis. Porter and Kramer (2011) refer to the strategy of shared-value creation as comprising the positive role of a company economically and for society. CSV within a company and a society can attract attention with the expansion of enterprise activity. CSV is a corporate strategy that aims to achieve sustainable growth on a long-term basis by means of an institution coexisting with society rather than merely maximizing short-term profits. CSV must advance the prospects of a local society through the realization of a social value and an economic value. CSV aims to strengthen corporate strategy with a view to improving a society, beyond decreasing negative impacts on the environment.

Considering the public nature of monetary services, the primary business of these becomes practice of philanthropy and making a local contribution. Monetary facilities can address environmental and social problems within a local society toward the creation and growth of shared value. However, in the conventional role of monetary facilities, philanthropy and local contribution have tended to be considered in terms of returning a part of profits to a local society, separate from conducting primary business. In particular, Japan's banking institutions have so far been strictly regulated in relation to financial products, trade areas, etc. The stance on the product development and service offers of Japanese banking institutions was formerly that they were lined upside by side, and priority was given to the stability of management through a certain warranty doctrine, etc. However, the value-added produced by monetary facilities has a relation that does not distinguish between creditorsand local society. Unless a regional economy is activated, the sustainable growth of monetary

facilities also becomes restricted. Thus, there is a drive toward monetary facilities attaining differentiation in the context of an increasinglystrict management environment and it is important for banking institutions to solve the specific problems of the local community by means of the financing services which are their primary business, and to grow with the local society.

To resolve social issues, innovation in financial products and services is required. Such innovation should be undertaken not only by banking institutions in isolation, but in cooperation with industry, academia and government. The formation of schemes which aim to generate innovation by the community as a whole is required. For this purpose, there is a need to increase the flexibility of risk-taking capability in relation to monetary facilities while promoting a fiduciary relation with local actors. Moreover, the innovation of financial products and services is realized by human resources. Innovation can be promoted by promulgating an environment in which excellent and able persons are gathered and can tackle innovation positively. It is not easy to realize innovation to solve a social problem, and yet this is required for long-term activity. Accumulating the capabilities of able human resources and local fiduciary relations, etc., over the long term increases inimitability of innovations. It is thought that the accumulation of resources through long-term effort brings about sustained competitive advantage.

However, in many previous empirical studies, the conventional CSR activity of a company has not always correlated with corporate performance. Research has found conflicting evidence: positive correlation, negative correlation, or no correlation. The considerable differences in previous research findings have tended to be related to the intermingling of industries, companies, activities or scales of investigation. The definition of sustainable activity may vary among companies or industries. The stance in relation to conventional CSR activity has often been that it comprises a derivative activity for a company in carrying out business: Sustainable activity may be regarded as a strategy related to finding a new market or increasing competitive advantage.

In this research, attention is paid especially to the CSV activity of banking companies. It is important to distinguish between CSV activity and traditional CSR activity in the case of banking institutions specifically. The objective is thus to specify those activities that solve an environmental problem or social problem through primary business, and lead to improvement in the profitability of a banking institution. The focus of the research is Japanese banking corporations and the study investigates the possible aspects of a CSV strategy suitable for conditions peculiar to the banking industry. In terms of research methodology, statistical verification was carried out based on the sustainability statement, the various publicity materials, and the financial data released by each company.

REVIEW OF PREVIOUS STUDIES

Relationship between Conventional CSR and Profitability

A number of previous studies have indicated that CSR and corporate performance are positively related. Waddock and Graves (1997) developed two hypotheses concerning the relationship between CSR and corporate performance: 1) if corporate performance is good, CSR will be addressed (the slack resource hypothesis); 2) CSR will be addressed if the company will see good earnings as a result (the good management hypothesis). Through the analysis of data from a U.S. firm, the relationship between CSR and corporate performance was found to be positive in both directions. According to McGuire, Sundgren, and Schneeweis (1988), in terms of the relationship between CSR and business results, they found that CSR is not directly linked to ensuing strong business results, but rather that risk is first reduced and this then leads to high financial results in the future. Orlitzky, Schmidt, and Rynes (2003) undertook a meta-analysis of approximately 52 empirical studies performed in relation to social responsibility, such as environmental countermeasures and financial business results in the 30

years following the 1970s. According to this study, there is a significant positive correlation between financial business results, price earnings, and societal or environmental performance; their results also verify the existence of a mutually complementary cause–effect relationship on the basis of a time series analysis.

On the other hand, Jaggi and Freedman (1992) found a negative relationship between CSR and corporate performance. According to Mahapatra (1984), eco management (or social responsibility) and financial business results are negatively related. Aupperle, Carroll, and Hatfield's (1985) study indicated that CSR and corporate performance are not related. Similarly, Ullman (1985) observed no significant trend between CSR and corporate performance, and McWilliams and Siegel (2000) found that CSR is neutral in terms of impact on corporate performance. Vogel (2005) noted that no decisive conclusion has yet been reached about the relevance of social responsibility for revenue in a company. The various study results reported here suggest that there may be high potential for a positive relationship between CSR and corporate performance in general, but it could be negative, or the two could be unrelated. To date, there is no clear established theory.

Creating Shared Value

Porter and Kramer (2011) described the difference between conventional CSR and a CSV strategy, taking fair trade as an example. Shared value is not about "sharing" the value already created by firms—a redistribution approach. Rather, it is about expanding the total pool of economic and social value.

According to Porter and Kramer (2011), there are three distinct ways for companies to create economic value by creating societal value, each of which is addressed below.

- **Reconceiving** Products and Markets: Society's needs are vast – health, better housing, improved nutrition, help for the aging population, greater financial security, and reducing environmental damage. Whole new avenues for innovation open up and shared value is created. For example, Credit Agricole Corporate and Investment Bank developed a financial product relevant to environmental problems, such as the provision of energy-saving housing equipment, and a loan for the funding ofan organic farmstead, and succeeded in differentiation.Meeting needs in underserved markets often requires redesigned products or different distribution methods. These requirements can trigger fundamental innovations that also have application in traditional markets. Microfinance, for example, was invented to serve unmet financing needs in developing countries. Now it is growing rapidly in the United States, where it is filling an important gap that was previously unrecognized.
- **Redefining Productivity in the Value Chain:** A company's value chain inevitably affects, and is affected by, numerous societal issues, such as natural resource and water use, health and safety, working conditions, and equal treatment in the workplace. Opportunities to create shared value arise because societal problems can create economic costs in the firm's value chain. For example, heightened environmental awareness and advances in technology are catalyzing new approaches in areas such as the utilization of water, raw materials, and packaging, as well as expanding recycling and reuse. Monetary facilities are concerned directly and indirectly with the activities which solve a social problem and an environmental problem through business.

Moreover, able persons' productivity is especially important for a service industry such as financial operations. The focus on holding down wage levels, reducing benefits, and offshoring is beginning to give way to awareness of the positive effects that a living wage, safety, wellness, training, and opportunities for advancement for employees have on productivity. For example, many companies have traditionally sought to minimize the cost of "expensive" employee

healthcare coverage, or even eliminate health coverage altogether. Today, leading companies have learned that because of lost workdays and diminished employee productivity, poor health costs them more than health benefits.

- **Enabling Local Cluster Development:** A company's efforts to improve framework conditions for the cluster spill over to other participants and the local economy. Workforce development initiatives, for example, increase the supply of skilled employees for many other firms as well. A key aspect of cluster building is the formation of open and transparent markets. Enabling fair and open markets, which is often best done in conjunction with partners, can allow a company to secure reliable supplies and give suppliers better incentives in terms of quality and efficiency,whilst also substantially improving the incomes and purchasing power of local citizens:

DEVELOPMENT OF HYPOTHESES

According to previous research on CSV, the activities can classified as follows: reconceiving products and markets, redefining productivity in the value chain (resource use, procurement, employee productivity, etc.), and enabling local cluster development. The activities related to the CSV strategy of banking corporations are categorized using this previous research. As a presupposition, the viewpoint of the CSV strategy in this paper is that it can confer an improvement in long-term corporate earnings, as well as the belief that social value can be increased simultaneously.

The first category is reconceiving products and markets, that is, the creation of the shared value through a loan or investment, or the development and sale of a financial product, which is a primary function of monetary facilities. Monetary facilities are able to take a risk positively on the innovation which aims at a settlement of an environmental problem or a social problem. In addition, it is also possible to undertake an evaluation of the effort of a company in terms of its fairness and sell a socially responsible investment (SRI) fund to an institutional investor, an individual investor, etc. It usually takes a long time for innovations, such as research and development, to become fruitful in terms of returns. The fair attitude of a company is often not directly linked immediately to returns. Fairness is therefore connected with returns in the long run through the cultivation of a good relationship with various stakeholders in and outside the company, the avoidance of an undertaking concerning the continuation of risk, etc. It is thought that activities aimed at addressing the settlement of a social problem may be promoted by objective and exact valuation by monetary facilities and long-term monetary support.

The financial products which may be created as shared value by a banking institution are classified as follows. First, there are environmentally friendly financing products in the form of corporations-oriented loans. For example, these may be loans for the installation of renewable energy power generating equipment, the installation of energy-saving equipment, or provision for air-conditioning equipment, lighting, etc., energy-saving architecture, CO2 reduction support, ECO certification support, support for plant aimed at greenhouse gas reduction, green project assistance, eco-management assistance, recycling of industrial wastes, waste propriety facilities (such as a final disposal site), etc. Project finance for matters related to energy development, biodiversity grading, etc., is also included. Second, there are environmentally friendly financing business loans that are individually oriented, such as loan for home purchase and renovation related to the environment, etc. Third, there is assistance for the settlement of a social problem by a company, for example, a CSR support loan, company rating, a disaster restoration loan, a reconstruction assistance loan, a 6th industrialization fund, a sightseeing specialization investment fund, a creation support fund for new business (investment), etc. In addition, there are means not constituting loans, such as environmental communication and investment. For example, there are environmental countermeasure-related commendations, business matching, outlet expansion seminars for a local product, dissemination

and promotion eventsfor renewable energy, etc. Therefore, the following hypotheses can be formed with regard to reconceiving products and markets:

H1. A banking institution that engages in environmentallyfriendlyfinancing business (for corporations) raises revenue in the long run.

H2. A banking institution that engages in environmentallyfriendlyfinancing business (for individuals) raises revenue in the long run.

H3. A banking institution that engages in the provision of assistance loans to companies for the settlement of a social problem raises revenue in the long run.

H4. A banking institution that addresses environmental communication raises revenue in the long run.

The second category is redefining productivity in the value chain, that is, the creation of shared value over a series of activities which a banking institution performs. First, procurement can be considered in a service industry such as banking. The banking institution itself can preserve an environment through green procurement, etc., preferentially purchasing energy-saving goods or goods with few environmental impacts. The activities of a banking institution that may result in the creation of shared value are classified as follows. In terms of energy efficiency, activities include the installation of solar- and wind-powered generation systems, eco-friendly cars, recycling systems for paper resources, etc. As measures for biodiversity conservation, activities include tree planting, thinning and bottom grass cutting, protection/cultivation of endangered species, offset credit purchase, biotope improvement, etc.

Moreover, the productivity of able persons is especially important for a service industry. Productivity can be improved if various outstanding able persons are gathered and the capabilities of each utilized efficiently through the reformation of the workplace environment. When various able persons collaborate, it is thought that innovation is promoted by a new combination. There is an improvement in social value in that there is a location in which various persons are employed in a healthy environment, resulting in the creation of shared value. In terms of diversity, there istarget-setting for diversity in a workplace, educational systems, award programs, etc. In addition, there are workplace systemsthat are worker friendly, for example providing flexible hours, maternity leave, family-care leave, and nursing leave, assistance with childcare expenses, disabled persons employment, retirement age rehiring, etc. Furthermore, there areactivities that improve employee satisfaction, such as surveys determining the degreeof employee satisfaction, the rationalization of potential appraisal, a plenum of various educational systems, etc. Therefore, the following hypotheses can be formed concerning resource use:

H5. A banking institution that addresses improvement in energy efficiency in procurement raises revenue in the long run.

H6. A banking institution that addresses biodiversity conservation raises revenue in the long run.

H7. A banking institution that addresses diversity expansion raises revenue in the long run.

H8. A banking institution that addresses improvements in workplace systems raises revenue in the long run.

H9. A banking institution that addresses improvement in employee satisfaction raises revenue in the long run.

The third category is enabling local cluster development. For monetary institutions, including banking institutions, growth in the existing regional economy is important to improve profitability. When a monetary institution tackles the settlement of various problems of a local society, there is scope for the local society to develop. It is thought that a beneficial relationship with the local society is developed and the monetary institution can grow sustainably. In addition, fairness is an important basis, especially for a monetary institution. To maintain and develop a relationship with various stakeholders, including local society, it is thought that ensuring improvement in corporate governance is indispensable. First, the provision of assistance to economy, well-being, education, scholarship, culture, the arts, sport, international exchange, earthquake disaster reconstruction, etc., are all activities related to regional improvement. In addition, there are measures that increase customer satisfaction, such as financial products and service enhancements from a customer perspective, increases in service quality, and International Organization for Standardization certification related to local bank depositors. In relation to corporate governance, there is structural reinforcement of compliance, disclosure, intensification of risk management, committee extension (third-person assessment), etc. In addition, there are efforts aimed at the settlement of environmental and social problems, for example participation in international initiatives, such as the application of Equator Principles, the carbon disclosure project (CDP), the United Nations global compact, principles for responsible investment (PRI), and financial initiatives under the United Nations Environment Program, etc. Therefore, the following hypotheses can be proposed in relation to enabling local cluster development:

H10. A banking institution that addresses regional improvement raises revenue in the long run.

H11. A banking institution that addresses improvement in local customer satisfaction raises revenue in the long run.

H12. A banking institution that addresses the intensification of corporate governance raises revenue in the long run.

H13. A banking institution that engages in participation in international initiatives raises revenue in the long run.

VERIFICATION AND RESULTS

Verification Approach

To evaluate CSV activity as an object of verification, banking companies that have actively released sustainability statements or related information were selected. Moreover, as it takes a long time for CSV activity accompanied by long-term innovation to be reflected in revenue, it was necessary to evaluate long-term performance to ensure that such activity was reflected, and thus the period of analysis covered was 10 years. CSV activity and financial performance for the fiscal years 2003 to 2013 were compared. Therefore, corporations that underwent a significant transition in structure, business category, etc., in this 10-year period were excluded from the analysis. As a result of the above selection process, 30 Japanese banking corporations that met all the inclusion criteria were selected for analysis.

In order to verify each of the aforementioned hypotheses, CSV activities were extracted from sustainability statements, CSR statements, press releases, and company homepages in the preceding 10 years for each company. CSV activity here comprises textual information. Therefore, a positive statement concerning each CSV activity is categorized as 1 and 0 otherwise.

In the statistical analyses, the valuation of the aforementioned CSV activity is the explanatory variable. The rate of change in the sales amount in the preceding 10 years in the financial statements of each company serves as the objective variable. First, as the activities varied widely, they were consolidated as explanatory variables using principal components analysis. Correlation analysis was conducted for each principal component and objective variable. SPSS version 22

(International Business Machines) was used for each statistical procedure.

Verification Results

First, the principal components analysis of explanatory variables among each following category were conducted

Category 1e Reconceiving products and markets: Ten principal components were extracted with eigenvalues of one or more.

Category 2. Redefining productivity in the value chain: Eight principal component was extracted as the above.

Category 3. Enabling local cluster development: Thirteen principal components were extracted as the above.

Next, correlation analysis of each of the principal components and the rate of change in the revenue for the preceding 10 years – the objective variable – was conducted. The results of the correlation analysis are shown in Table 1 (** indicates significance at the 1%, and * indicates 5% significance).

Table 1: Results of Correlation Analysis

Cate-Gory	Principal Component	Correlation Coefficient
1	Environmentally friendly financing business (for corporations) 1: Energy saving	.491**
	Environmentally friendly financing business (for corporations) 2: Environmental pollution reduction	.496**
	Environmentally friendly financing business (for corporations) 3: Biodiversity	-.071
	Environmentally friendly financing business (for corporations) 4: Industrial waste treatment	.006
	Environmentally friendly financing business (for individuals)	.058
	Support loans to companies to solve social problems 1: CSR	.367*
	Support loan to companies to solve social problems 2: Emergency restoration	.337
	Support loans to companies to solve social problems 3: Regional economic growth	-.018
	Environmental communication 1: Environmental measure-related commendation	-.003
	Environmental communication 2: Environmental business support	-.112
2	Improvement in energy efficiency by procurement	.040
	Biodiversity conservation	-.027
	Diversity 1: Female appointment	.320
	Diversity 2: Diversity amplification	.376*
	Workplace environment 1: Flexibility of working hours	.518**
	Workplace environment 2: Assisted living	-.169
	Workplace environment 3: Elderly people and disabled person employment	.168
	Employee satisfaction	.430*
3	Regional improvement 1: Local industrial support	-.253
	Regional improvement 2: Education and scientific support	.184
	Regional improvement 3: Culture, arts, and sporting activity support	.070
	Regional improvement 4: Community welfare support	.341
	Regional improvement 5: Reconstruction assistance	.268
	Customer satisfaction	.364*
	Corporate governance 1: Compliance	.092
	Corporate governance 2: Headquarters system	.115
	Corporate governance 3: Operation branch system	-.087
	Corporate governance 4: Disclosure	.149
	Corporate governance 5: Independent committee	.552*
	Corporate governance 6: Risk management	-.093
	International initiative	.572**

DISCUSSIONS

Each of the hypotheses is verified based on the results of statistical analysis.

The first category concerned reconceiving products and markets. This is a hypothetical group related to the creation of shared value by means of the financial products and servicesthat are the primary business of a banking institution. Some principal components for business loansfor the environment and settlement of socialproblemsarecorrelated with the expansion of revenue as hypothesized. Energy saving and environmentalpollution protection are mature industrial areas among the countermeasures against environmental problems. Generally research and development and the diffusion of new products involve considerable expense. It seems that long-term preferential treatment loans from monetary institutions promote innovation, and can expand a business.

On the other hand, it seems that biodiversity and industrial waste treatment are industrial areas that have not been expanded. In addition, each monetary institution tackling reconstruction assistance provided in the case of a disaster equally, so that this is not differentiated. Moreover, in relation to the local cluster, in many cases the promotion of regional economy is not particularly successful other than in the case of large cities. Provincial revitalization is an area that encompasses political considerations. Nor is the provision of support by banking institutions other than through loans particularly successful. It is thought that the accumulation of know-how in a monetary institution, etc., is an issue in this regard. As a result, hypotheses 1 and 2 are partially verified, whereas hypotheses 3 and 4 are rejected.

The second category concerned redefining productivity in the value chain. This is the creation of shared value resulting from a series of activities on the part of the banking institution. Among these, some principal components related to employee productivity are correlated with the expansion of revenue. It is thought that greater diversity and flexibility in working hours activate various able persons, and promote innovation. In addition, as banking is a service industry, an improvement in employee satisfaction may increase revenue through the improvement in the quality of the financial products and services provided to customers.

On the other hand, in the case of a service business, the influence on a firm’s revenue from procurement, etc., may be small. In addition, for many Japanese organizations, including banking institutions, little progress has been made in the appointment and promotion of women. Furthermore, activities related to assisted living, and the employment of senior citizens and disabled persons are essentially governed by statute, and are thus not directly linked to an increase in revenue. As a result, hypotheses 7, 8, and 9 are partially verified, but hypotheses 5 and 6 are rejected.

The third category is enabling local cluster development. This concerns the creation of shared value through the relations between the community and banking institutions. Among the activities considered here, improvements in local bank depositors’ satisfaction are correlated with an increase in revenue. Financial products and services in banks were traditionally lined up side by side, and they were not sufficiently oriented to consumers. Nowadays, monetary institutions can achieve differentiation through revising their financial products and services according to local needs. In addition, many of items concerning corporate governance are based on law and ordinance, and they are scarcely a source of differentiation for a monetary institution. However, it is part of the reformation of management to take account of the perspective of outsiders. In addition, participation in an international initiative iscorrelated with an increase in revenue. Businesses, including banking institutions, increase revenues by spreading business in a positive manner in an overseas growth marketunder conditions based on various international standards.

On the other hand, no principal components related to revitalization in domestic provinces are correlated with an increase in revenue. In this case, attempts to maintain existing provincial cities are failing to work due to a decrease in the birthrate and it seems that efforts in this vein, including political measures, need to be revisited. As a result, hypotheses 11, 12, and 13 are partially verified, but hypothesis 10 is rejected.

CONCLUSIONS

The objective of this research was to demonstrate empirically that the CSV activity of private enterprises contributes to gains in revenue on a long-term basis. In previous empirical studies on CSR activity and financial results, correlations have not always been established consistently. A major contribution of this research is its focus on the CSV activity of the banking industry and its clarification of the effect of CSV strategies on revenue. When banking corporations adopt an optimal approach to CSV activity, in contrast to a simple redistribution of profits, corporate and social values expand cyclically. The implications of this research are of particular relevance to business administrators, who may have confidence in CSV investment as the advantages of CSV activity and the link to profitability are clear. However, in this research, the survey was limited to banking corporations in Japan and the survey sample was therefore small. A future objective is to extend the survey and to undertake a comparative study of the companies of various countries.

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